

## TRADE SECRETS

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## 4400. Misappropriation of Trade Secrets—Introduction

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[*Name of plaintiff*] **claims that [he/she/it] is the [owner/licensee] of [insert general description of alleged trade secret[s]].**

[*Name of plaintiff*] **claims that [this/these] [select short term to describe, e.g., information] [is/are] [a] trade secret[s] and that [name of defendant] “misappropriated” [it/them].**

**“Misappropriation” means the improper [acquisition/use/ [or] disclosure] of the trade secret[s].**

[*Name of plaintiff*] **also claims that [name of defendant]’s misappropriation caused [[him/her/it] harm/ [or] [name of defendant] to be unjustly enriched].**

[*Name of defendant*] **denies [insert denial of any of the above claims].**

[*Name of defendant*] **also claims [insert affirmative defenses].**

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*New December 2007*

### Directions for Use

This instruction is designed to introduce the jury to the issues involved in a case involving the misappropriation of trade secrets under the California Uniform Trade Secrets Act. (See Civ. Code, § 3426.1 et seq.). It should be read before the instructions on the substantive law.

In the first sentence, provide only a general description of the alleged trade secrets. Then in the second sentence, select a short term to identify the items, such as “information,” “customer lists,” or “computer code.” The items that are alleged to be trade secrets will be described with more specificity in CACI No. 4401, *Misappropriation of Trade Secrets—Essential Factual Elements*.

Select the appropriate term, “owner” or “licensee,” to indicate the plaintiff’s interest in the alleged trade secrets. No reported California state court decision has addressed whether a licensee has a sufficient interest to assert a claim of trade secret misappropriation. These instructions take no position on the standing issue. The court should make a determination whether the plaintiff has standing if that issue is disputed.

Civil Code section 3426.1(b)(1) defines “misappropriation” as improper

“[a]cquisition” of a trade secret, and subsection (b)(2) defines it as improper “[d]isclosure or use” of a trade secret. In some cases, the mere acquisition of a trade secret, as distinguished from a related disclosure or use, will not result in damages and will only be relevant to injunctive relief. Because generally the jury should be instructed only on matters relevant to damage claims, do not select “acquiring” in the second paragraph unless there is evidence that the acquisition resulted in damages, other than damages from related disclosure or use.

To avoid confusion, instruct the jury only on the particular theory of misappropriation applicable under the facts of the case. For example, the jury should not be instructed on misappropriation through “use” if the plaintiff does not assert that the defendant improperly used the trade secrets. Nor should the jury be instructed on a particular type of “use” if that type of “use” is not asserted and supported by the evidence.

In the third paragraph, select the nature of the recovery sought, either damages for harm to the plaintiff or for the defendant’s unjust enrichment, or both.

Include the last paragraph if the defendant asserts any affirmative defenses.

### **Sources and Authority**

- Civil Code section 3426.1 provides:

As used in this title, unless the context requires otherwise:

- (a) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.
- (b) “Misappropriation” means:
  - (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
  - (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
    - (A) Used improper means to acquire knowledge of the trade secret; or
    - (B) At the time of disclosure or use, knew or had

reason to know that his or her knowledge of the trade secret was:

- (i) Derived from or through a person who had utilized improper means to acquire it;
  - (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
  - (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.
- (c) “Person” means a natural person, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.
- (d) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
- (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
  - (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 81

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, § 1.01 (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.50 et seq. (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*,

§ 565.103 (Matthew Bender)

1 Zamore, Business Torts, Ch. 17, *Trade Secrets*, § 17.05 et seq. (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) Chs. 1, 2, 6, 12

## 4401. Misappropriation of Trade Secrets—Essential Factual Elements

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*[Name of plaintiff]* **claims that** *[name of defendant]* **has misappropriated a trade secret. To succeed on this claim, *[name of plaintiff]* must prove all of the following:**

1. **That** *[name of plaintiff]* **[owned/was a licensee of] [the following:]***[describe each item claimed to be a trade secret that is subject to the misappropriation claim];*
2. **That [this/these] [select short term to describe, e.g., information] [was/were] [a] trade secret[s] at the time of the misappropriation;**
3. **That** *[name of defendant]* **improperly [acquired/used/ [or] disclosed] the trade secret[s];**
4. **That** *[[name of plaintiff] was harmed/ [or] [name of defendant] was unjustly enriched]; and*
5. **That** *[name of defendant]’s [acquisition/use/ [or] disclosure] was a substantial factor in causing [[name of plaintiff]’s harm/ [or] [name of defendant] to be unjustly enriched].*

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*New December 2007*

### Directions for Use

In element 1, specifically describe all items that are alleged to be the trade secrets that were misappropriated. If more than one item is alleged, include “the following” and present the items as a list. Then in element 2, select a short term to identify the items, such as “information,” “customer lists,” or “computer code.”

In element 1, select the appropriate term, “owned” or “was a licensee of,” to indicate the plaintiff’s interest in the alleged trade secrets. No reported California state court decision has addressed whether a licensee has a sufficient interest to assert a claim of trade secret misappropriation. These instructions take no position on the standing issue. The court should make a determination whether the plaintiff has standing if that issue is disputed.

Read also CACI No. 4402, “*Trade Secret*” *Defined*, to give the jury guidance

on element 2.

Civil Code section 3426.1(b)(1) defines “misappropriation” as improper “[a]cquisition” of a trade secret, and subsection (b)(2) defines it as improper “[d]isclosure or use” of a trade secret. In some cases, the mere acquisition of a trade secret, as distinguished from a related disclosure or use, will not result in damages and will only be relevant to injunctive relief. Because generally the jury should be instructed only on matters relevant to damage claims, do not select “acquired” in element 3 or “acquisition” in element 5 unless there is evidence that the acquisition resulted in damages, other than damages from related disclosure or use.

To avoid confusion, instruct the jury only on the particular theory of misappropriation applicable under the facts of the case. For example, the jury should not be instructed on misappropriation through “use” if the plaintiff does not assert that the defendant improperly used the trade secrets. Nor should the jury be instructed on a particular type of “use” if that type of “use” is not asserted and supported by the evidence.

Give also CACI No. 4409, *Remedies for Misappropriation of Trade Secret*.

### Sources and Authority

- Civil Code section 3426.1 provides:

As used in this title, unless the context requires otherwise:

- (a) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.
- (b) “Misappropriation” means:
  - (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
  - (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
    - (A) Used improper means to acquire knowledge of the trade secret; or
    - (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:

- (i) Derived from or through a person who had utilized improper means to acquire it;
  - (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
  - (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.
- (c) “Person” means a natural person, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.
- (d) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
  - (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
  - (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- “A trade secret is misappropriated if a person (1) acquires a trade secret knowing or having reason to know that the trade secret has been acquired by ‘improper means,’ (2) discloses or uses a trade secret the person has acquired by ‘improper means’ or in violation of a nondisclosure obligation, (3) discloses or uses a trade secret the person knew or should have known was derived from another who had acquired it by improper means or who had a nondisclosure obligation or (4) discloses or uses a trade secret after learning that it is a trade secret but before a material change of position.” (*Ajaxo Inc. v. E\*Trade Group Inc.* (2005) 135 Cal.App.4th 21, 66 [37 Cal.Rptr.3d 221].)



- “We find the trade secret situation more analogous to employment discrimination cases. In those cases, as we have seen, information of the employer’s intent is in the hands of the employer, but discovery affords the employee the means to present sufficient evidence to raise an inference of discriminatory intent. The burden of proof remains with the plaintiff, but the defendant must then bear the burden of producing evidence once a prima facie case for the plaintiff is made. [¶] We conclude that the trial court correctly refused the proposed instruction that would have shifted the burden of proof.” (*Sargent Fletcher, Inc. v. Able Corp.* (2003) 110 Cal.App.4th 1658, 1674 [3 Cal.Rptr.3d 279], internal citation omitted.)

### ***Secondary Sources***

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, § 1.01 (Matthew Bender)

Zamore, Business Torts, Ch. 17, *Trade Secrets*, § 17.05 et seq. (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.51 (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) Chs. 1, 2, 6, 10, 11, 12

## 4402. “Trade Secret” Defined

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To prove that the [*select short term to describe, e.g., information*] [was/were] [a] trade secret[s], [*name of plaintiff*] must prove all of the following:

1. That the [*e.g., information*] [was/were] secret;
  2. That the [*e.g., information*] [was/were] actually or potentially valuable, giving [*name of plaintiff*] a substantial business advantage over [his/her/its] competitors, because [it was/they were] secret; and
  3. That [*name of plaintiff*] made reasonable efforts to keep the [*e.g., information*] secret.
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*New December 2007*

### Directions for Use

Give also CACI No. 4403, *Secrecy Requirement*, and CACI No. 4404, *Reasonable Efforts to Protect Secrecy*, if more explanation of elements 1 and 3 are needed.

### Sources and Authority

- Civil Code section 3426.1(d) provides:
  - (d) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
    - (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
    - (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
- “Trade secrets are a peculiar kind of property. Their only value consists in their being kept private.’ Thus, ‘the right to exclude others is central to the very definition of the property interest. Once the data that constitute a trade secret are disclosed to others, or others are allowed to use those

data, the holder of the trade secret has lost his property interest in the data.’ ” (*DVD Copy Control Ass’n v. Bunner* (2003) 31 Cal.4th 864, 881 [4 Cal.Rptr.3d 69, 75 P.3d 1], internal citations omitted.)

- “[T]he test for a trade secret is whether the matter sought to be protected is information (1) that is valuable because it is unknown to others and (2) that the owner has attempted to keep secret. . . . [I]n order to qualify as a trade secret, the information ‘must be secret, and must not be of public knowledge or of a general knowledge in the trade or business.’ ” (*DVD Copy Control Ass’n v. Bunner* (2004) 116 Cal.App.4th 241, 251 [10 Cal.Rptr.3d 185], internal citations omitted.)
- “[A]ny information (such as price concessions, trade discounts and rebate incentives) disclosed to [cross-complainant’s] customers cannot be considered trade secret or confidential.” (*Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1455 [125 Cal.Rptr.2d 277].)
- “[A] trade secret . . . has an intrinsic value which is based upon, or at least preserved by, being safeguarded from disclosure.’ Public disclosure, that is the absence of secrecy, is fatal to the existence of a trade secret. ‘If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.’ A person or entity claiming a trade secret is also required to make ‘efforts that are reasonable under the circumstances to maintain its secrecy.’ ” (*In re Providian Credit Card Cases* (2002) 96 Cal.App.4th 292, 304 [116 Cal.Rptr.2d 833], internal citations omitted.)
- “The requirement that a customer list must have economic value to qualify as a trade secret has been interpreted to mean that the secrecy of this information provides a business with a ‘substantial business advantage.’ In this respect, a customer list can be found to have economic value because its disclosure would allow a competitor to direct its sales efforts to those customers who have already shown a willingness to use a unique type of service or product as opposed to a list of people who only might be interested.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1522 [66 Cal.Rptr.2d 731], internal citations omitted.)

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 87(4)

Trade Secrets Practice in California (Cont.Ed.Bar 2d ed.) §§ 4.8–4.10

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, § 1.01 (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.52 (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4][a] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) Ch. 1

## 4403. Secrecy Requirement

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The secrecy required to prove that something is a trade secret does not have to be absolute in the sense that no one else in the world possesses the information. It may be disclosed to employees involved in [name of plaintiff]'s use of the trade secret as long as they are instructed to keep the information secret. It may also be disclosed to nonemployees if they are obligated to keep the information secret. However, it must not have been generally known to the public or to people who could obtain value from knowing it.

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New December 2007

### Directions for Use

Read this instruction with CACI No. 4402, “*Trade Secret*” *Defined*, to give the jury additional guidance on the secrecy requirement of element 1 of that instruction.

### Sources and Authority

- “ ‘Trade secrets are a peculiar kind of property. Their only value consists in their being kept private.’ Thus, ‘the right to exclude others is central to the very definition of the property interest. Once the data that constitute a trade secret are disclosed to others, or others are allowed to use those data, the holder of the trade secret has lost his property interest in the data.’ ” (*DVD Copy Control Ass’n v. Bunner* (2003) 31 Cal.4th 864, 881 [4 Cal.Rptr.3d 69, 75 P.3d 1], internal citations omitted.)
- “[T]he test for a trade secret is whether the matter sought to be protected is information (1) that is valuable because it is unknown to others and (2) that the owner has attempted to keep secret. . . . [I]n order to qualify as a trade secret, the information ‘must be secret, and must not be of public knowledge or of a general knowledge in the trade or business.’ ” (*DVD Copy Control Ass’n v. Bunner* (2004) 116 Cal.App.4th 241, 251 [10 Cal.Rptr.3d 185], internal citations omitted.)
- “The secrecy requirement is generally treated as a relative concept and requires a fact-intensive analysis. Widespread, anonymous publication of the information over the Internet may destroy its status as a trade secret.

The concern is whether the information has retained its value to the creator in spite of the publication.” (*DVD Copy Control Ass’n, supra*, 116 Cal.App.4th at p. 251, internal citations omitted.)

- “[A]ny information (such as price concessions, trade discounts and rebate incentives) disclosed to [cross-complainant’s] customers cannot be considered trade secret or confidential.” (*Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1455 [125 Cal.Rptr.2d 277].)
- “ ‘[A] trade secret . . . has an intrinsic value which is based upon, or at least preserved by, being safeguarded from disclosure.’ Public disclosure, that is the absence of secrecy, is fatal to the existence of a trade secret. ‘If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.’ A person or entity claiming a trade secret is also required to make ‘efforts that are reasonable under the circumstances to maintain its secrecy.’ ” (*In re Providian Credit Card Cases* (2002) 96 Cal.App.4th 292, 304 [116 Cal.Rptr.2d 833], internal citations omitted.)
- “ ‘[R]easonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on ‘need to know basis,’ and controlling plant access.’ ” (*Courtesy Temporary Service, Inc. v. Camacho* (1990) 222 Cal.App.3d 1278, 1288 [272 Cal.Rptr. 352].)

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 87(4)

Trade Secrets Practice in California (Cont.Ed.Bar 2d ed.) §§ 4.2–4.10

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, § 1.03 (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.52 (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) §§ 1.03(3), (4)

#### 4404. Reasonable Efforts to Protect Secrecy

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To establish that the [*select short term to describe, e.g., information*] [is/are] [a] trade secret[s], [*name of plaintiff*] must prove that [he/she/it] made reasonable efforts under the circumstances to keep it secret. “Reasonable efforts” are the efforts that would be made by a reasonable [person/business] in the same situation and having the same knowledge and resources as [*name of plaintiff*], exercising due care to protect important information of the same kind. [This requirement applies separately to each item that [*name of plaintiff*] claims to be a trade secret.]

In determining whether or not [*name of plaintiff*] made reasonable efforts to keep the [*e.g., information*] secret, you should consider all of the facts and circumstances. Among the factors you may consider are the following:

- [a. Whether documents or computer files containing the [*select short term to describe, e.g., information*] were marked with confidentiality warnings;]
- [b. Whether [*name of plaintiff*] instructed [his/her/its] employees to treat the information as confidential information;]
- [c. Whether [*name of plaintiff*] restricted access to the [*select short term to describe, e.g., information*] to persons who had a business reason to know the information;]
- [d. Whether [*name of plaintiff*] kept the [*select short term to describe, e.g., information*] in a restricted or secured area;]
- [e. Whether [*name of plaintiff*] required employees or others with access to the information to sign confidentiality or nondisclosure agreements;]
- [f. Whether [*name of plaintiff*] took any action to protect the specific [*select short term to describe, e.g., information*], or whether it relied on general measures taken to protect its business information or assets;]
- [g. The extent to which any general measures taken by [*name of plaintiff*] would prevent the unauthorized disclosure of the [*select short term to describe, e.g., information*];]
- [h. Whether there were other reasonable measures available to

[*name of plaintiff*] that [he/she/it] did not take;]

[i. *Specify other factor(s).*]

**The presence or absence of any one or more of these factors is not necessarily determinative.**

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*New December 2007*

### Directions for Use

Give this instruction with CACI No. 4402, “*Trade Secret*” *Defined*, to guide the jury with regard to element 3 of that instruction, that the plaintiff made reasonable efforts to keep the information secret. Read only the factors supported by the evidence in the case. Use factor i to present additional factors.

### Sources and Authority

- “Reasonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on ‘need to know basis,’ and controlling plant access. [¶] . . . Requiring employees to sign confidentiality agreements is a reasonable step to ensure secrecy.” (*Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1454 [125 Cal.Rptr.2d 277, internal citations omitted].)
- “A person or entity claiming a trade secret is also required to make ‘efforts that are reasonable under the circumstances to maintain its secrecy.’ A leading treatise has collected the cases of successful and unsuccessful claims of secrecy protection; among the factors repeatedly noted are restricting access and physical segregation of the information, confidentiality agreements with employees, and marking documents with warnings or reminders of confidentiality.” (*In re Providian Credit Card Cases* (2002) 96 Cal.App.4th 292, 304 [116 Cal.Rptr.2d 833], referring to *Trade Secrets Practice in California* (Cont.Ed.Bar 2d ed.) §§ 4.9–4.10.)
- “In addition to possessing actual or potential economic value, the other part of the definition of a trade secret is that the information must have been protected by ‘efforts that are reasonable under the circumstances to maintain its secrecy.’ [W]hether a party claiming a trade secret undertook reasonable efforts to maintain secrecy is a question of fact, and it may be implicit in a determination that the information does not qualify as a



trade secret, also a question of fact.” (*In re Providian Credit Card Cases*, *supra*, 96 Cal.App.4th at p. 306, internal citations omitted.)

### ***Secondary Sources***

Advising California Employers and Employees (Cont.Ed.Bar) Ch. 11, Reasonable Effort to Maintain Secrecy, § 11.6

Trade Secrets Practice in California (Cont.Ed.Bar 2d ed.) §§ 4.9–4.10

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, §§ 103–1.05 (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.52 (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) § 1.03(4)

## 4405. Misappropriation by Acquisition

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**[Name of defendant] misappropriated [name of plaintiff]’s trade secret[s] by acquisition if [name of defendant] acquired the trade secret[s] and knew or had reason to know that [he/she/it/[name of third party]] used improper means to acquire [it/them].**

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*New December 2007*

### Directions for Use

Read this instruction with CACI No. 4401, *Misappropriation of Trade Secrets—Essential Factual Elements*, if the plaintiff claims that the defendant’s acquisition of the information alleged to be a trade secret is a misappropriation. Give also CACI No. 4408, *Improper Means of Acquiring Trade Secret*.

Civil Code section 3426.1(b)(1) defines “misappropriation” as improper “[a]cquisition” of a trade secret, and subsection (b)(2) defines it as improper “[d]isclosure or use” of a trade secret. In some cases, the mere acquisition of a trade secret, as distinguished from a related disclosure or use, will not result in damages and will only be relevant to injunctive relief. Because generally the jury should only be instructed on matters relevant to damage claims, this instruction should not be given unless there is evidence that the acquisition resulted in damages, other than damages from related disclosure or use.

### Sources and Authority

- Civil Code section 3426.1(b)(1) provides:
  - (b) “Misappropriation” means:
    - (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.
- “Defendants . . . obtained these secrets improperly. Their tortious acts resulted from a breach of confidence by Van Den Berg in copying or stealing plans, designs and other documents related to [plaintiff]’s products which defendants themselves wanted to produce in competition with [plaintiff]. The protection which is extended to trade secrets

fundamentally rests upon the theory that they are improperly acquired by a defendant, usually through theft or a breach of confidence.” (*Vacco Indus. v. Van Den Berg* (1992) 5 Cal.App.4th 34, 50 [6 Cal.Rptr.2d 602].)

### ***Secondary Sources***

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.53[1][a] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4][c] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) Chs. 2, 6, 12

## 4406. Misappropriation by Disclosure

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*[Name of defendant]* **misappropriated** *[name of plaintiff]*'s trade secret[s] by disclosure if *[name of defendant]*

1. **Disclosed** *[it/them]* **without** *[name of plaintiff]*'s consent; and
2. **[Did any of the following:]**

*[insert one or more of the following:]*

**[Acquired knowledge of the trade secret[s] by improper means[./; or]**

**[At the time of disclosure, knew or had reason to know that [his/her/its] knowledge of [name of plaintiff]'s trade secret[s] came from or through [name of third party], and that [name of third party] had previously acquired the trade secret[s] by improper means[./; or]**

**[At the time of disclosure, knew or had reason to know that [his/her/its] knowledge of [name of plaintiff]'s trade secret[s] was acquired [insert circumstances giving rise to duty to maintain secrecy], which created a duty to keep the [select short term to describe, e.g., information] secret[./; or]**

**[At the time of disclosure, knew or had reason to know that [his/her/its] knowledge of [name of plaintiff]'s trade secret[s] came from or through [name of third party], and that [name of third party] had a duty to [name of plaintiff] to keep the [e.g., information] secret[./; or]**

**[Before a material change of [his/her/its] position, knew or had reason to know that [it was/they were] [a] trade secret[s] and that knowledge of [it/them] had been acquired by accident or mistake.]**

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*New December 2007*

### Directions for Use

Read this instruction with CACI No. 4401, *Misappropriation of Trade Secrets—Essential Factual Elements*, if the plaintiff claims that the

defendant's disclosure of the information alleged to be a trade secret is a misappropriation.

If consent is at issue, CACI No. 1302, *Consent Explained*, and CACI No. 1303, *Invalid Consent*, may also be given.

In element 2, select the applicable statutory act(s) alleged to constitute misappropriation by disclosure. (See Civ. Code, § 3624.1(b)(2).) If only one act is selected, omit the words "did any of the following."

If either of the first two acts constituting misappropriation by disclosure is alleged, give also CACI No. 4408, *Improper Means of Acquiring Trade Secret*.

Each act of misappropriation based on improper disclosure requires that the defendant have "knowledge of the trade secret." (See Civ. Code, § 3426.1(b)(2).) No reported California state court decision has interpreted the meaning of "knowledge of the trade secret."

### Sources and Authority

- Civil Code section 3426.1(b)(2) provides:
  - (b) "Misappropriation" means:
    - (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
      - (A) Used improper means to acquire knowledge of the trade secret; or
      - (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
        - (i) Derived from or through a person who had utilized improper means to acquire it;
        - (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
        - (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
      - (C) Before a material change of his or her

position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

- Civil Code section 19 provides: “Every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, he might have learned such fact.”
- “The fact that [defendant]’s postings were not of the ‘entire secret,’ and included only portions of courses, does not mean that [defendant]’s disclosures are not misappropriations. While previous partial disclosures arguably made public only those parts disclosed, [defendant]’s partial disclosures of non-public portions of the secrets may themselves be actionable because they constitute ‘disclosure . . . without . . . consent by a person who . . . knew or had reason to know that his . . . knowledge of the trade secret was . . . [either] derived from or through a person who had utilized improper means to acquire it [or] acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.’ ” (*Religious Tech. Ctr. v. Netcom On-Line Commun. Servs.* (N.D.Cal. 1995) 923 F.Supp. 1231, 1257, fn. 31.)
- “Under the UTSA, simple disclosure or use may suffice to create liability. It is no longer necessary, if it ever was, to prove that the purpose to which the acquired information is put is outweighed by the interests of the trade secret holder or that use of a trade secret cannot be prohibited if it is infeasible to do so.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1527 [66 Cal.Rptr.2d 731].)
- “[N]othing in the UTSA requires that the defendant gain any advantage from the disclosure; it is sufficient to show ‘use’ by disclosure of a trade secret with actual or constructive knowledge that the secret was acquired under circumstances giving rise to a duty to maintain its secrecy.” (*Religious Tech. Ctr., supra*, 923 F.Supp. at p. 1257, fn. 31.)
- “When a competitor hires a former employee of plaintiff who is likely to disclose trade secrets, ‘[i]t is a question of fact whether the competitor had constructive notice of the plaintiff’s right in the secret.’ ” (*Ralph Andrews Productions, Inc. v. Paramount Pictures Corp.* (1990) 222 Cal.App.3d 676, 682–683 [271 Cal.Rptr. 797], internal citation omitted.)

### **Secondary Sources**

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.53[1][b] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*,  
§ 565.103[4][c] (Matthew Bender)

Edelson & Kay, eds., *Trade Secret Litigation and Protection in California*  
(State Bar of California 2005) Chs. 2, 6, 12

## 4407. Misappropriation by Use

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[*Name of defendant*] **misappropriated** [*name of plaintiff*]'s trade secret[s] by use if [*name of defendant*]

1. Used [it/them] without [*name of plaintiff*]'s consent; and
2. [Did any of the following:]

[*insert one or more of the following:*]

**[Acquired knowledge of the trade secret[s] by improper means[./; or]**

**[At the time of use, knew or had reason to know that [his/her/its] knowledge of [*name of plaintiff*]'s trade secret[s] came from or through [*name of third party*], and that [*name of third party*] had previously acquired the trade secret[s] by improper means[./; or]**

**[At the time of use, knew or had reason to know that [his/her/its] knowledge of [*name of plaintiff*]'s trade secret[s] was acquired under circumstances creating a legal obligation to limit use of the [*select short term to describe, e.g., information*][./; or]**

**[At the time of use, knew or had reason to know that [his/her/its] knowledge of [*name of plaintiff*]'s trade secret[s] came from or through [*name of third party*], and that [*name of third party*] had a duty to [*name of plaintiff*] to limit use of the [*e.g., information*][./; or]**

**[Before a material change of [his/her/its] position, knew or had reason to know that [it was/they were] [a] trade secret[s] and that knowledge of [it/them] had been acquired by accident or mistake.]**

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*New December 2007*

### Directions for Use

Read this instruction with CACI No. 4401, *Misappropriation of Trade Secrets—Essential Factual Elements*, if the plaintiff claims that the



defendant's use of the information alleged to be a trade secret is a misappropriation.

If consent is at issue, CACI No. 1302, *Consent Explained*, and CACI No. 1303, *Invalid Consent*, may also be given.

In element 2, select the applicable statutory act(s) alleged to constitute misappropriation by use. (See Civ. Code, § 3624.1(b)(2).) If only one act is selected, omit the words "did any of the following."

If either of the first two acts constituting misappropriation by disclosure is alleged, give also CACI No. 4408, *Improper Means of Acquiring Trade Secret*.

Each act of misappropriation based on improper use requires that the defendant have "knowledge of the trade secret." (See Civ. Code, § 3426.1(b)(2).) No reported California state court decision has interpreted the meaning of "knowledge of the trade secret."

### Sources and Authority

- Civil Code section 3426.1(b)(2) provides:
  - (b) "Misappropriation" means:
    - (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
      - (A) Used improper means to acquire knowledge of the trade secret; or
      - (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
        - (i) Derived from or through a person who had utilized improper means to acquire it;
        - (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
        - (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
      - (C) Before a material change of his or her

position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

- Civil Code section 19 provides: “Every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, he might have learned such fact.”
- “Under the plain terms of the Uniform Trade Secrets Act, defendants may be personally liable if: they used, through the corporation, [plaintiff]’s trade secrets; at the time of the use of the confidential information they knew or had reason to know that knowledge of the trade secrets was derived from or through a person who had improperly acquired the knowledge, or the secrets were obtained by a person who owed a duty to plaintiffs to maintain the secrecy. Employing the confidential information in manufacturing, production, research or development, marketing goods that embody the trade secret, or soliciting customers through the use of trade secret information, all constitute use. Use of a trade secret without knowledge it was acquired by improper means does not subject a person to liability unless the person receives notice that its use of the information is wrongful.” (*PMC, Inc. v. Kadisha* (2000) 78 Cal.App.4th 1368, 1383 [93 Cal.Rptr.2d 663], internal citations omitted.)
- “Under the UTSA, simple disclosure or use may suffice to create liability. It is no longer necessary, if it ever was, to prove that the purpose to which the acquired information is put is outweighed by the interests of the trade secret holder or that use of a trade secret cannot be prohibited if it is infeasible to do so.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1527 [66 Cal.Rptr.2d 731].)
- “When a competitor hires a former employee of plaintiff who is likely to disclose trade secrets, ‘[i]t is a question of fact whether the competitor had constructive notice of the plaintiff’s right in the secret.’ ” (*Ralph Andrews Productions, Inc. v. Paramount Pictures Corp.* (1990) 222 Cal.App.3d 676, 682–683 [271 Cal.Rptr. 797], internal citation omitted.)
- “Our Supreme Court has previously distinguished solicitation—which is actionable—from announcing a job change—which is not: ‘Merely informing customers of one’s former employer of a change of employment, without more, is not solicitation. Neither does the willingness to discuss business upon invitation of another party constitute solicitation on the part of the invitee. Equity will not enjoin a former

employee from receiving business from the customers of his former employer, even though the circumstances be such that he should be prohibited from soliciting such business.’ ” (*Hilb v. Robb* (1995) 33 Cal.App.4th 1812, 1821 [39 Cal.Rptr. 2d 887], internal citation omitted; but see *Morlife, Inc., supra*, 56 Cal.App.4th at p. 1527, fn. 8 [“we need not decide whether the ‘professional announcement’ exception . . . has continued vitality in light of the expansive definition of misappropriation under the UTSA”].)

- “[T]o prove misappropriation of a trade secret under the UTSA, a plaintiff must establish (among other things) that the defendant improperly ‘used’ the plaintiff’s trade secret. Thus, under Evidence Code sections 500 and 520, the plaintiff bears the burden of proof on that issue, both at the outset and during trial.” (*Sargent Fletcher, Inc. v. Able Corp.* (2003) 110 Cal.App.4th 1658, 1668 [3 Cal.Rptr.3d 279], internal citation omitted.)
- “[I]nformation relative to customers (e.g., their identities, locations, and individual preferences), obtained by a former employee in his contacts with them during his employment, may amount to ‘trade secrets’ which will warrant his being enjoined from exploitation or disclosure after leaving the employment. [¶] It is equally clear, however, that the proscriptions inhibiting the ex-employee reach only his use of such information, not to his mere possession or knowledge of it.” (*Golden State Linen Service, Inc. v. Vidalin* (1977) 69 Cal.App.3d 1, 7–8 [137 Cal.Rptr. 807], internal citations omitted.)
- “Since these ‘Marks’ likely encompass any trade secrets, it is reasonable to conclude that one party’s use of the trade secrets that affects the other party’s rights in the mark would constitute the misappropriation of the trade secrets ‘of another.’ ” (*Morton v. Rank Am., Inc.* (C.D. Cal. 1993), 812 F.Supp. 1062, 1074 [one can misappropriate trade secret jointly owned with another].)

### ***Secondary Sources***

3 Levy et al., *California Torts*, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.53[1][b] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4][c] (Matthew Bender)

Edelson & Kay, eds., *Trade Secret Litigation and Protection in California* (State Bar of California 2005) Chs. 2, 6, 12

## 4408. Improper Means of Acquiring Trade Secret

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**Improper means of acquiring a trade secret or knowledge of a trade secret include, but are not limited to, [theft/bribery/misrepresentation/breach or inducing a breach of a duty to maintain secrecy/ [or] wiretapping, electronic eavesdropping, [or] *[insert other means of espionage]*].**

**[However, it is not improper to acquire a trade secret or knowledge of the trade secret by [any of the following]:**

- [1. Independent efforts to invent or discover the information;]**
- [2. Reverse engineering; that is, examining or testing a product to determine how it works, by a person who has a right to possess the product;]**
- [3. Obtaining the information as a result of a license agreement with the owner of the information;]**
- [4. Observing the information in public use or on public display;] [or]**
- [5. Obtaining the information from published literature, such as trade journals, reference books, the Internet, or other publicly available sources.]]**

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*New December 2007*

### **Directions for Use**

In the first paragraph, include only those statutory examples of “improper means” supported by the evidence. (See Civ. Code, § 3426.1(a).) The option for “wiretapping, eavesdropping, [or] *[insert other means of espionage]*” expresses the statutory term “espionage.”

Include the optional last paragraph if any of those methods of obtaining the information are supported by the evidence. Omit any methods that are not at issue. If only one is at issue, omit “any of the following.”

### **Sources and Authority**

- Civil Code section 3426.1(a) provides that “ ‘Improper means’ includes theft, bribery, misrepresentation, breach or inducement of a breach of a

duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.”

- “The Restatement of Torts, Section 757, Comment (f), notes: ‘A complete catalogue of improper means is not possible,’ but Section 1(1) includes a partial listing. Proper means include: 1. Discovery by independent invention; 2. Discovery by “reverse engineering,” that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse engineering to be lawful; 3. Discovery under a license from the owner of the trade secret; 4. Observation of the item in public use or on public display; 5. Obtaining the trade secret from published literature. . . . [T]he assertion that a matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation. Information is readily ascertainable if it is available in trade journals, reference books, or published materials.” (Civ. Code, § 3426.1, Legis. Comm. Comment (Senate), 1984 Addition.)
- Penal Code section 630 provides in part:

The Legislature hereby declares that advances in science and technology have led to the development of new devices and techniques for the purpose of eavesdropping upon private communications and that the invasion of privacy resulting from the continual and increasing use of such devices and techniques has created a serious threat to the free exercise of personal liberties and cannot be tolerated in a free and civilized society.

The Legislature by this chapter intends to protect the right of privacy of the people of this state.

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 81(1)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.53[1][b] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4][b] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) § 2.01(D)

## 4409. Remedies for Misappropriation of Trade Secret

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**If [name of plaintiff] proves that [name of defendant] misappropriated [his/her/its] trade secret[s], then [name of plaintiff] is entitled to recover damages if the misappropriation caused [[name of plaintiff] to suffer an actual loss/ [or] [name of defendant] to be unjustly enriched].**

**[If [name of defendant]'s misappropriation did not cause [[name of plaintiff] to suffer an actual loss/ [or] [name of defendant] to be unjustly enriched], [name of plaintiff] may still be entitled to a reasonable royalty for no longer than the period of time the use could have been prohibited. However, I will calculate the amount of any royalty.]**

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*New December 2007*

### Directions for Use

Give this instruction with CACI No. 4401, *Misappropriation of Trade Secrets—Essential Factual Elements*, in all cases.

Select the nature of the recovery sought; either for the plaintiff's actual loss or for the defendant's unjust enrichment, or both. If the plaintiff's claim of actual injury or loss is based on lost profits, give CACI No. 3903N, *Lost Profits (Economic Damage)*. If unjust enrichment is alleged, give CACI No. 4410, *Unjust Enrichment*.

If neither actual loss nor unjust enrichment is provable, Civil Code section 3426.3(b) provides for a third, alternate remedy: a reasonable royalty for no longer than the period of time the use could have been prohibited. Both the statute and case law indicate that the question of a reasonable royalty should not be presented to the jury. (See Civ. Code, § 3426.3(b) [*the court may order the payment of a reasonable royalty*]; *Unilogic, Inc. v. Burroughs Corp.* (1992) 10 Cal.App.4th 612, 628 [12 Cal.Rptr.2d 741]; see also Civ. Code, § 3426.2(b) [court may issue an injunction that conditions future of a trade secret on payment of a reasonable royalty].) However, no reported California state court case has directly held that "reasonable royalty" issues should not be presented to the jury. (But see *Unilogic, Inc., supra*, 10 Cal.App.4th at p. 627.) Include the optional second paragraph if the court wants to advise the jury that even if it finds that the plaintiff suffered no actual loss and that the

defendant was not unjustly enriched, the plaintiff may still be entitled to some recovery.

For simplicity, this instruction uses the term “damages” to refer to both actual loss and unjust enrichment, even though, strictly speaking, unjust enrichment may be considered a form of restitution rather than damages.

### Sources and Authority

- Civil Code section 3426.3 provides:
  - (a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
  - (b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
  - (c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).
- “Under subdivision (a), a complainant may recover damages for the actual loss caused by misappropriation, as well as for any unjust enrichment not taken into account in computing actual loss damages. Subdivision (b) provides for an alternative remedy of the payment of royalties from future profits where ‘neither damages nor unjust enrichment caused by misappropriation [is] provable.’ ” (*Ajaxo Inc. v. E\*Trade Group Inc.* (2005) 135 Cal.App.4th 21, 61 [37 Cal.Rptr.3d 221].)
- “[B]ased on the plain language of the statute, the Court — not the jury — determines if and in what amount a royalty should be awarded. See Cal. Civ. Code section 3416.3(b) (‘the Court may order payment of a reasonable royalty’).” (*FAS Techs. v. Dainippon Screen Mfg.* (N.D. Cal. 2001) 2001 U.S. Dist. LEXIS 15444, \*\*9–10.)
- “Nor was it necessary to submit the liability issue to the jury in order to allow the trial court thereafter to determine a reasonable royalty or to impose an injunction. Just as [cross complainant] presented no evidence

of the degree of [cross defendant]’s enrichment, [cross complainant] likewise presented no evidence that would allow the court to determine what royalty, if any, would be reasonable under the circumstances.” (*Unilogic, Inc. supra*, 10 Cal.App.4th at p. 628.)

- “[T]he imposition of a reasonable royalty is reserved for those instances where the court finds that neither actual damages to the holder of the trade secret nor unjust enrichment to the user is provable.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1529 [66 Cal.Rptr.2d 731].)
- “California law is clear, however. [Plaintiff] is entitled to a reasonable royalty only if neither actual damages nor unjust enrichment are provable. . . . [¶] . . . California law differs on this point from both the UTSA and Federal patent law, neither of which require actual damages and unjust enrichment to be unprovable before a reasonable royalty may be imposed.” (*Cacique, Inc. v. Robert Reiser & Co.* (9th Cir. 1999) 169 F.3d 619, 623.)

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, §§ 83, 89–90

1 Milgrim on Trade Secrets, Ch. 15, *Trial Considerations*, § 15.02 (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.54 (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[6], [7] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) Ch. 11



## 4410. Unjust Enrichment

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**[Name of defendant] was unjustly enriched if [his/her/its] misappropriation of [name of plaintiff]’s trade secret[s] caused [name of defendant] to receive a benefit that [he/she/it] otherwise would not have achieved.**

**To decide the amount of any unjust enrichment, first determine the value of [name of defendant]’s benefit that would not have been achieved except for [his/her/its] misappropriation. Then subtract from that amount [name of defendant]’s reasonable expenses[, including the value of the [specify categories of expenses in evidence, such as labor, materials, rents, interest on invested capital]]. [In calculating the amount of any unjust enrichment, do not take into account any amount that you included in determining any amount of damages for [name of plaintiff]’s actual loss.]**

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*New December 2007*

### Directions for Use

Give this instruction with CACI No. 4409, *Remedies for Misappropriation of Trade Secrets*, if unjust enrichment is alleged and supported by the evidence. If it would be helpful to the jury, specify the categories of expenses to be allowed to the defendant. Include the last sentence if both actual loss and unjust enrichment are alleged.

### Sources and Authority

- Civil Code section 3426.3 provides:
  - (a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
  - (b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

- (c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).
- “In general, ‘[a] person who has been unjustly enriched at the expense of another is required to make restitution to the other.’ (Rest., Restitution, § 1.) ‘Ordinarily the benefit to the one and the loss to the other are co-extensive, and the result . . . is to compel the one to surrender the benefit which he has received and thereby to make restitution to the other for the loss which he has suffered.’ [¶] ‘In other situations, a benefit has been received by the defendant but the plaintiff has not suffered a corresponding loss or, in some cases, any loss, but nevertheless the enrichment of the defendant would be unjust. In such cases, the defendant may be under a duty to give to the plaintiff the amount by which he has been enriched.’ ” (*Unilogic, Inc. v. Burroughs Corp.* (1992) 10 Cal.App.4th 612, 627–628 [12 Cal.Rptr.2d 741].)
  - Restatement of Restitution, section 1, comment a, states: “A person is enriched if he has received a benefit (see Comment b). A person is unjustly enriched if the retention of the benefit would be unjust (see Comment c).”
  - Restatement of Restitution, section 1, comment b, states: “*What constitutes a benefit.* A person confers a benefit upon another if he gives to the other possession of or some other interest in money, land, chattels, or choses in action, performs services beneficial to or at the request of the other, satisfies a debt or a duty of the other, or in any way adds to the other’s security or advantage. He confers a benefit not only where he adds to the property of another, but also where he saves the other from expense or loss. The word ‘benefit,’ therefore, denotes any form of advantage. The advantage for which a person ordinarily must pay is pecuniary advantage; it is not, however, necessarily so limited, as where a physician attends an insensible person who is saved subsequent pain or who receives thereby a greater chance of living.”
  - Restatement of Restitution, section 1, comment c, states: “*Unjust retention of benefit.* Even where a person has received a benefit from another, he is liable to pay therefor only if the circumstances of its receipt or retention are such that, as between the two persons, it is unjust for him to retain it. The mere fact that a person benefits another is not of itself sufficient to require the other to make restitution therefor. Thus, one who improves his own land ordinarily benefits his neighbors to some

extent, and one who makes a gift or voluntarily pays money which he knows he does not owe confers a benefit; in neither case is he entitled to restitution. The Restatement of this Subject states the rules by which it is determined whether or not it is considered to be just to require restitution.”

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 90(1)(a)

1 Milgrim on Trade Secrets, Ch. 13, *Issues Prior to Commencement of Action*, § 13.03[2][a] (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.54[4] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[7][b] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California (State Bar of California 2005) § 11.03

## 4411. Punitive Damages for Willful and Malicious Misappropriation

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If you decide that *[name of defendant]*'s misappropriation caused *[name of plaintiff]* harm, you must decide whether that conduct justifies an award of punitive damages. The purposes of punitive damages are to punish a wrongdoer for the conduct that harmed *[name of plaintiff]* and to discourage similar conduct in the future.

In order to recover punitive damages, *[name of plaintiff]* must prove [by clear and convincing evidence] that *[name of defendant]* acted willfully and maliciously. You must determine whether *[name of defendant]* acted willfully and maliciously, but you will not be asked to determine the amount of any punitive damages. I will calculate the amount later.

“Willfully” means that *[name of defendant]* acted with a purpose or willingness to commit the act or engage in the conduct in question, and the conduct was not reasonable under the circumstances at the time and was not undertaken in good faith.

“Maliciously” means that *[name of defendant]* acted with an intent to cause injury, or that *[name of defendant]*'s conduct was despicable and was done with a willful and knowing disregard for the rights of others. “Despicable conduct” is conduct so vile, base, or wretched that it would be looked down on and despised by ordinary decent people. *[Name of defendant]* acted with knowing disregard if [he/she/it] was aware of the probable consequences of [his/her/its] conduct and deliberately failed to avoid those consequences.

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*New December 2007*

### Directions for Use

Give this instruction if there is evidence that the defendant acted willfully and maliciously, so as to support an award of punitive damages. (See Civ. Code, § 3426.3(c).)

No reported California state court case has addressed whether the jury or the court should decide whether any misappropriation was “willful and

malicious,” and if so, whether the finding must be made by clear and convincing evidence rather than a preponderance of the evidence. In *Ajaxo Inc. v. E\*Trade Group Inc.* (2005) 135 Cal.App.4th 21, 66 [37 Cal.Rptr.3d 221], the court affirmed a jury’s finding by clear and convincing evidence that the defendant’s misappropriation was willful and malicious. If the court decides to require the “clear and convincing” standard, include the bracketed language in the first paragraph and also give CACI No. 201, *More Likely True—Clear and Convincing Proof*.

Once the jury finds “willful and malicious” conduct, it appears that the court should decide the amount of punitive damages. (See *Robert L. Cloud & Assocs. v. Mikesell* (1999), 69 Cal.App.4th 1141, 1151, fn. 8 [82 Cal.Rptr.2d 143]). This would be consistent with the Uniform Trade Secrets Act, on which the California Uniform Trade Secrets Act is based. (See Uniform Trade Secrets Act § 3, 2005 com. [“This provision follows federal patent law in leaving discretionary trebling to the judge even though there may be a jury, compare 35 U.S.C. Section 284 (1976)”].)

### Sources and Authority

- Civil Code section 3426.3(c) provides: “If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).”
- Civil Code section 3426.4 provides: “If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney’s fees and costs to the prevailing party.”
- “The court instructed the jury that ‘willful’ means ‘a purpose or willingness to commit the act or engage in the conduct in question, and the conduct was not reasonable under the circumstances then present and was not undertaken in good faith.’ Further, the court instructed the jury that ‘malice’ means ‘conduct which is intended by the defendant to cause injury to the plaintiff or despicable conduct which is carried on by the defendant with a willful and conscious disregard for the rights of others when the defendant is aware [of] the probable consequences of its conduct and willfully and deliberately fails to avoid those consequences. Despicable conduct is conduct which is so vile and wretched that it would be looked down upon and despised by ordinary decent people.’ In addition, the court instructed the jury that a finding of willful and malicious misappropriation must be supported by clear and convincing

evidence. [¶] Our Supreme Court has recognized that malice may be proven either expressly by direct evidence probative of the existence of hatred or ill will, or by implication from indirect evidence from which the jury may draw inferences.” (*Ajaxo Inc.*, *supra*, 135 Cal.App.4th at pp. 66–67, internal citations and footnote omitted.)

- “The limitation on punitive damages under the UTSA to twice the compensatory damages does not create an equivalency between an award of punitive damages under the UTSA and an award of treble damages under another statutory scheme. . . . While an award of treble damages is equally punitive in its effect, the computation of the penalty is strictly mechanical. In contrast, an award of punitive damages under the UTSA is subject to no fixed standard; the statute merely sets a cap on the amount of the award. The trial court retains wide discretion to set the amount anywhere between zero and two times the actual loss. (§ 3426.3, subd. (c).) Thus, evidence of the defendant’s financial condition remains essential for evaluating whether the amount of punitive damages actually awarded is appropriate.” (*Robert L. Cloud & Assocs.* *supra*, 69 Cal.App.4th at p. 1151, fn. 8.)
- “In order to justify [attorney] fees under Civil Code section 3426.4, the court must find that a ‘willful and malicious misappropriation’ occurred. That requirement is satisfied, in our view, by the jury’s determination, upon clear and convincing evidence, that defendants’ acts of misappropriation were done with malice. This finding was necessary to the award of punitive damages which was made by the jury.” (*Vacco Industries, Inc. v. Van Den Berg* (1992) 5 Cal.App.4th 34, 54 [6 Cal.Rptr.2d 602].)

### ***Secondary Sources***

13 Witkin, Summary of California Law (10th ed. 2005) Equity, § 90(1)(c)

1 Milgrim on Trade Secrets, Ch. 15, *Trial Considerations*, § 15.02[3][i]  
(Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, § 40.54[5] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[7][c] (Matthew Bender)

Edelson & Kay, eds., Trade Secret Litigation and Protection in California  
(State Bar of California 2005) § 11.05

### **4412–4419. Reserved for Future Use**

## 4420. Affirmative Defense—Information Was Readily Ascertainable by Proper Means

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[Name of defendant] **did not misappropriate** [name of plaintiff]’s **trade secret[s]** if [name of defendant] **proves that the** [select short term to describe, e.g., **information**] **[was/were] readily ascertainable by proper means at the time of the alleged [acquisition/use/ [or] disclosure].**

**There is no fixed standard for determining what is “readily ascertainable by proper means.” In general, information is readily ascertainable if it can be obtained, discovered, developed, or compiled without significant difficulty, effort, or expense. For example, information is readily ascertainable if it is available in trade journals, reference books, or published materials. On the other hand, the more difficult information is to obtain, and the more time and resources that must be expended in gathering it, the less likely it is that the information is readily ascertainable by proper means.**

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### Directions for Use

Give also CACI No. 4408, *Improper Means of Acquiring Trade Secret*.

### Sources and Authority

- Civil Code section 3426.1(d)(1) provides:
  - (d) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
    - (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use;
- “The Legislative Committee Comment [to Civ. Code, § 3426.1] further explains the original draft defined a trade secret in part as ‘not being readily ascertainable by proper means’ and that ‘the assertion that a

matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation. Information is readily ascertainable if it is available in trade journals, reference books, or published materials.’ ” (*DVD Copy Control Ass’n v. Bunner* (2003) 31 Cal.4th 864, 899], conc. opn. of Moreno, J.; see Legis. Comm. Comment (Senate), 1984 Addition.)

- “The focus of the first part of the statutory definition is on whether the information is generally known to or readily ascertainable by business competitors or others to whom the information would have some economic value. Information that is readily ascertainable by a business competitor derives no independent value from not being generally known.” (*Syngenta Crop Protection, Inc. v. Helliker* (2006) 138 Cal.App.4th 1135, 1172 [42 Cal.Rptr.3d 191], internal citations omitted.)
- “With respect to the general availability of customer information, courts are reluctant to protect customer lists to the extent they embody information which is ‘readily ascertainable’ through public sources, such as business directories. On the other hand, where the employer has expended time and effort identifying customers with particular needs or characteristics, courts will prohibit former employees from using this information to capture a share of the market. Such lists are to be distinguished from mere identities and locations of customers where anyone could easily identify the entities as potential customers. As a general principle, the more difficult information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a court will find such information constitutes a trade secret.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1521–1522 [66 Cal.Rptr.2d 731], internal citations omitted.)
- “While ease of ascertainability is irrelevant to the definition of a trade secret, ‘the assertion that a matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation.’ Therefore, if the defendants can convince the finder of fact at trial (1) that ‘it is a virtual certainty that anyone who manufactures’ certain types of products uses rubber rollers, (2) that the manufacturers of those products are easily identifiable, and (3) that the defendants’ knowledge of the plaintiff’s customers resulted from that identification process and not from the plaintiff’s records, then the defendants may establish a defense to the misappropriation claim. That defense, however, will be based upon an absence of misappropriation, rather than the absence of a trade secret.” (*Abba Rubber Co. v. Seaquist* (1991) 235 Cal.App.3d 1, 21–22, fn.9 [286 Cal.Rptr. 518], internal citations omitted.)



- “[T]he evidence established that [plaintiff]’s customer list and related information was the product of a substantial amount of time, expense and effort on the part of [plaintiff]. Moreover, the nature and character of the subject customer information, i.e., billing rates, key contacts, specialized requirements and markup rates, is sophisticated information and irrefutably of commercial value and not readily ascertainable to other competitors. Thus, [plaintiff]’s customer list and related proprietary information satisfy the first prong of the definition of ‘trade secret’ under section 3426.1.” (*Courtesy Temporary Serv., Inc. v. Camacho* (1990) 222 Cal.App.3d 1278, 1288 [272 Cal.Rptr. 352].)
- “In viewing the evidence presented in the light most favorable to the prevailing party, it is difficult to find a protectable trade secret as that term exists under Civil Code section 3426.1, subdivision (d). While the information sought to be protected here, that is lists of customers who operate manufacturing concerns and who need shipping supplies to ship their products to market, may not be generally known to the public, they certainly would be known or readily ascertainable to other persons in the shipping business. The compilation process in this case is neither sophisticated nor difficult nor particularly time consuming. The evidence presented shows that the shipping business is very competitive and that manufacturers will often deal with more than one company at a time. There is no evidence that all of appellant’s competition comes from respondents’ new employer. Obviously, all the competitors have secured the same information that appellant claims and, in all likelihood, did so in the same manner as appellant — a process described herein by respondents.” (*American Paper & Packaging Prods., Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318, 1326 [228 Cal.Rptr. 713].)

### ***Secondary Sources***

1 Milgrim on Trade Secrets, Ch. 1, *Definitional Aspects*, § 1.07[1] (Matthew Bender)

3 Levy et al., California Torts, Ch. 40, *Fraud and Deceit and Other Business Torts*, §§ 40.52[1], 40.53[1][b] (Matthew Bender)

49 California Forms of Pleading and Practice, Ch. 565, *Unfair Competition*, § 565.103[4][a] (Matthew Bender)

### **4421–4999. Reserved for Future Use**